

Wages and Employment in Competitive and Monopsonistic Labor Markets

This activity asks you to show how changes in economic conditions, government policy, and union activity affect different types of labor markets. The impact of such changes depends on the degree of competition on the demand and supply sides of the labor market. The symbols W_C , L_C , W_M , and L_M refer to the wages and labor in the competitive and monopsonistic labor markets. You are to consider the short-run effects in the specified labor market.

Part A: Perfect Competition and Monopsony



Figure 4-6.1

Perfectly Competitive and Monopsonistic Labor Markets

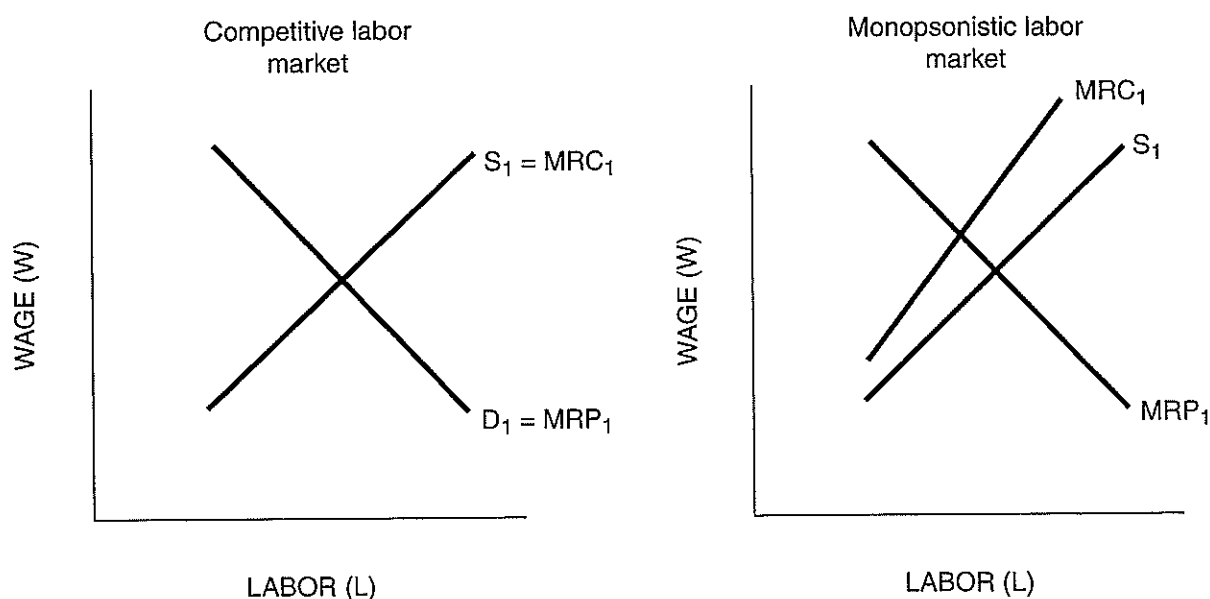


Figure 4-6.1 presents the basic setup of a perfectly competitive labor market and a monopsonistic labor market. Answer the following questions based on this figure.

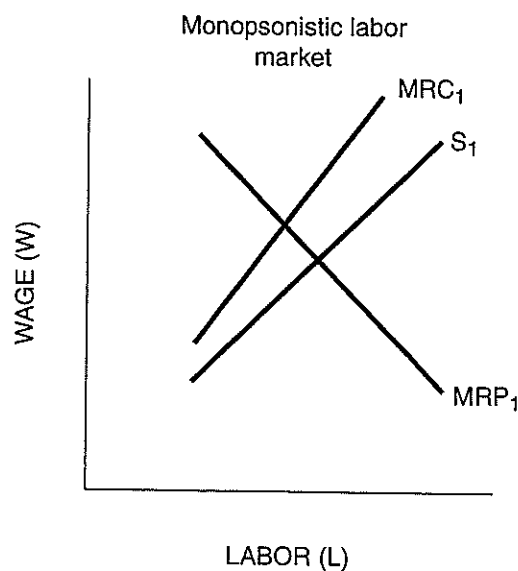
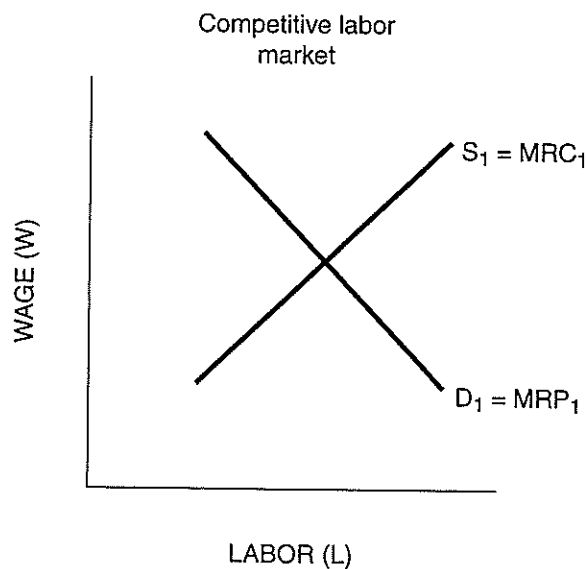
1. Why is the marginal revenue product (MRP) curve equal to the market demand (D) curve for labor in the perfectly competitive labor market?
2. Why is the MRP curve not equal to the market D curve for labor in the monopsonistic labor market?

3. Why is the marginal resource cost (MRC) curve equal to the market labor supply (S) curve in the perfectly competitive labor market?
4. Why is the MRC curve not equal to the market labor S curve in the monopsonistic labor market?
5. In the appropriate graph, indicate by W_{C1} and L_{C1} , or W_{M1} and L_{M1} , the market wage and quantity of labor.

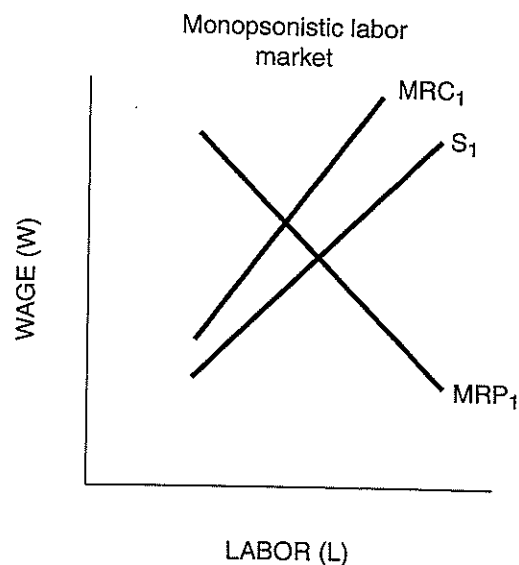
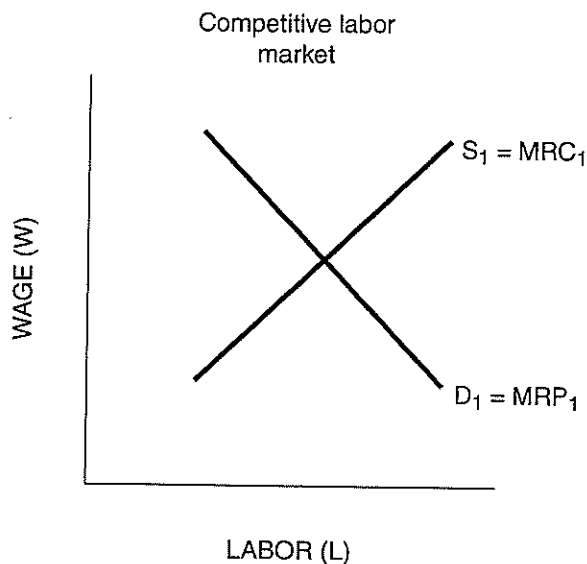
Part B: Analyzing Changes in the Labor Market

For each of the following scenarios, analyze the short-run effect of the specified event on each labor market. In the perfectly competitive labor market graph, indicate by W_{C1} and W_{C2} the market wage before and after the event. Indicate by L_{C1} and L_{C2} the equilibrium quantity of labor before and after the event. In the monopsonistic labor market graph, indicate by W_{M1} and W_{M2} the market wage before and after the event. Indicate by L_{M1} and L_{M2} the equilibrium quantity of labor before and after the event. State whether the event increases, decreases, or does not change the market wage and labor. Be sure to shift the curves that are affected by the events, leading to the changes in wage and labor.

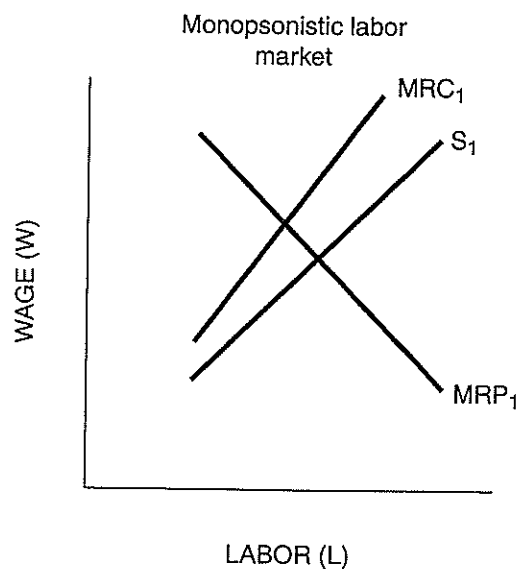
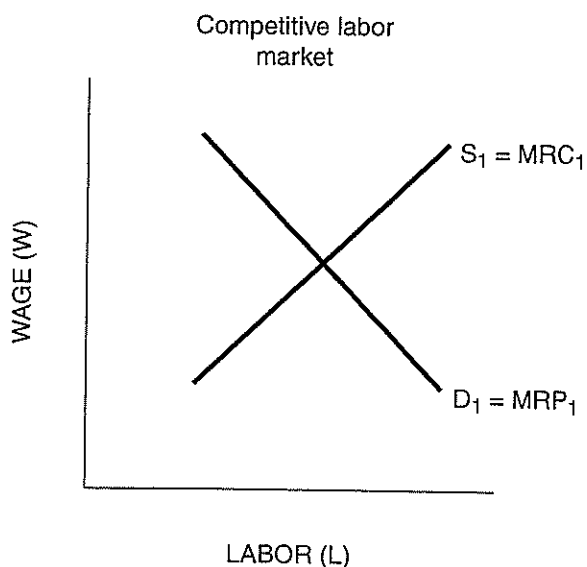
6. Event: The state passes legislation requiring new teachers to pass a competency test in order to be employed by any school in the state. (The graphs refer to the labor market for teachers.)



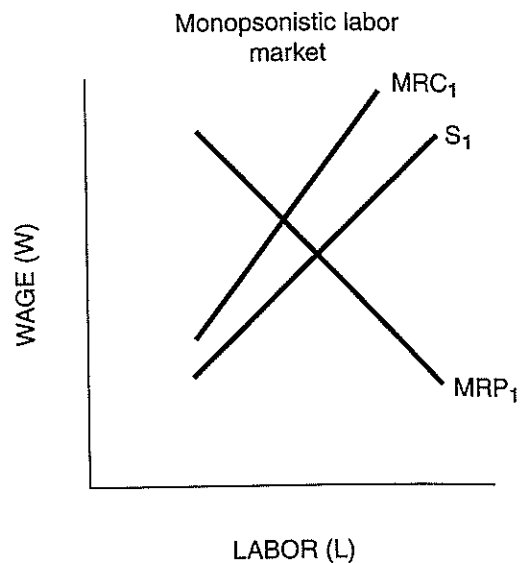
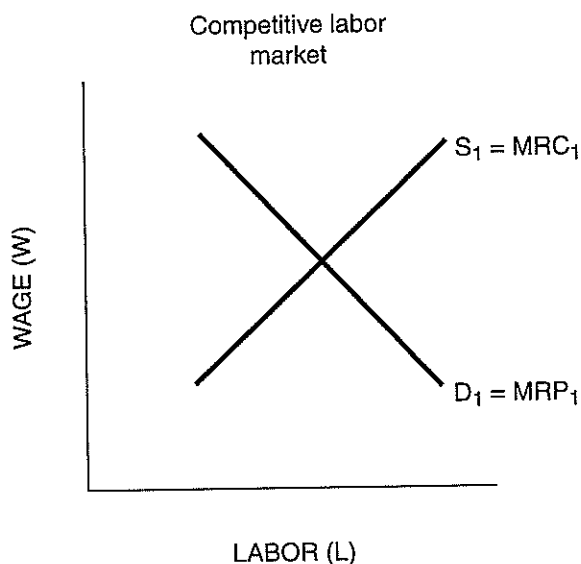
7. Event: New training methods increase the productivity of workers in the automobile industry.
(The graphs refer to the labor market for automobile workers.)



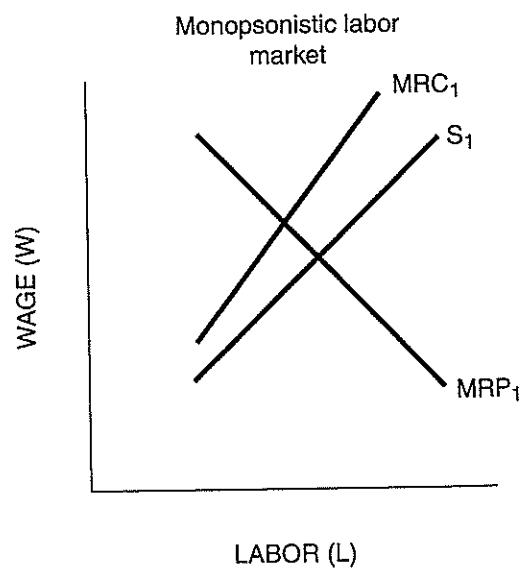
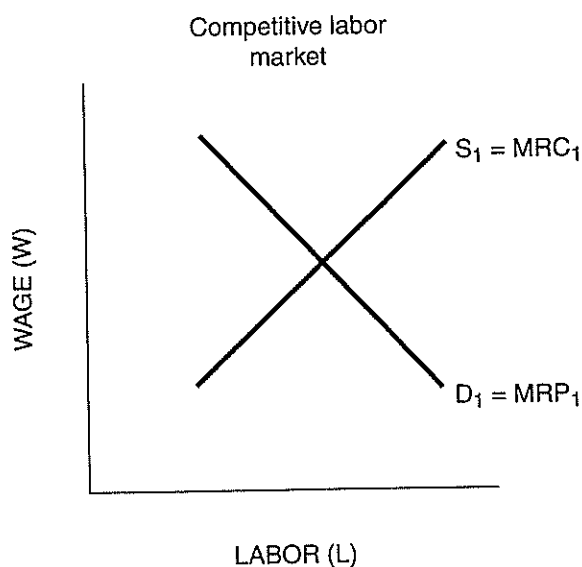
8. Event: The U.S. government relaxes a tough immigration law, making it easier for construction workers from other countries to enter the United States. (The graphs refer to the American labor market for construction workers.)



9. Event: The German government lowers tariffs on shoes imported into Germany. (The graphs refer to the labor market for shoe workers in Germany.)



10. Event: Labor unions conduct a successful advertising campaign urging people to buy goods and services produced by American workers. (The graphs refer to the labor market for all American workers.)



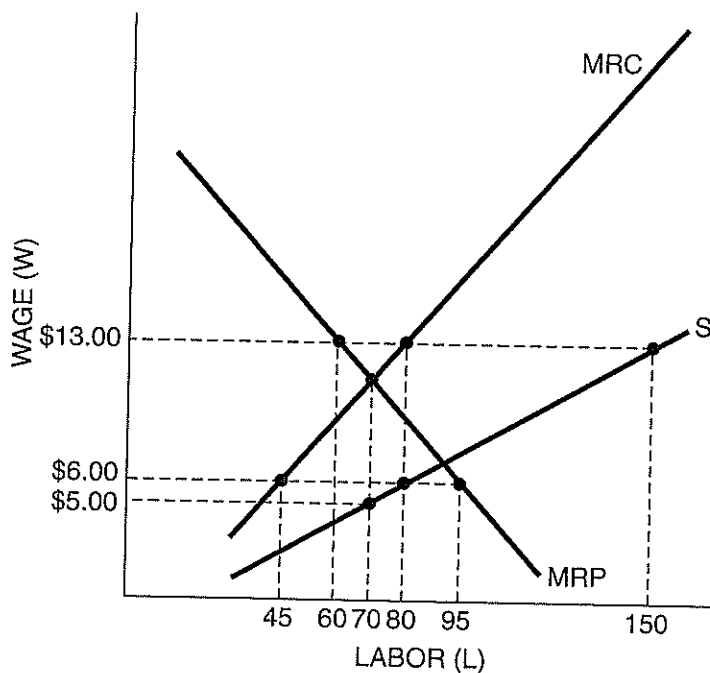
Part B: Monopsony and a Minimum Wage

Figure 4-6.2 illustrates the labor market in which there is only one employer. This monopsonist sells its good in a perfectly competitive product market.



Figure 4-6.2

A Monopsonistic Labor Market



1. What is the profit-maximizing amount of labor for this monopsonistic firm? Why?
2. What wage will it pay each unit of labor? Why?
3. If the government sets a minimum wage of \$13.00, how many units of labor would be hired? How many units of labor will be unemployed with this minimum wage? Explain.
4. If the government sets a minimum wage of \$6.00, how many units of labor would be hired? How many units of labor will be unemployed with this minimum wage? Explain.